

# **Report of the auditor-general to the Eastern Cape Provincial Legislature and the council on the Blue Crane Development Agency**

## **Report on the financial statements**

### **Introduction**

1. I have audited the separate financial statements of the Blue Crane Development Agency set out on pages xx to xx, which comprise the statement of financial position as at 30 June 2015, the statement of financial performance, statement of changes in net assets, cash flow statement and statement of comparison of budget and actual amounts for the year then ended, as well as the notes, comprising a summary of significant accounting policies and other explanatory information.

### **Accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor-general's responsibility**

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with International Standards on Auditing. Those standards require that I comply with ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipal entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipal entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

## **Opinion**

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Blue Crane Development Agency as at 30 June 2015 and its financial performance and cash flows for the year then ended, in accordance with SA Standards of GRAP and the requirements of the MFMA.

## **Emphasis of matters**

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Going concern**

8. As disclosed in note 26 to the financial statements, the Blue Crane Development Agency was dissolved on 30 June 2015. The financial statements were therefore prepared on the basis that the agency would no longer be a going concern.

### **Restatement of corresponding figures**

9. As disclosed in note 23 to the financial statements, the corresponding figures for 30 June 2014 have been restated as a result of errors discovered during the current financial period.

## **Report on other legal and regulatory requirements**

10. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report findings on compliance with legislation and internal control. The objective of my tests was to identify reportable findings as described under each subheading, but not to gather evidence to express assurance on these matters. Accordingly, I do not express an opinion or conclusion on these matters.

## **Compliance with legislation**

11. I performed procedures to obtain evidence that the municipal entity had complied with applicable legislation regarding financial matters, financial management and other related matters. My material findings on compliance with specific matters in key legislation, as set out in the general notice issued in terms of the PAA, are as follows:

## **Annual financial statements**

12. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the MFMA. Material misstatements of property, plant and equipment, trade and other payables, irregular expenditure, fruitless and wasteful expenditure and the cash flow statement were identified by the auditors in the submitted financial statements. These were subsequently corrected and the supporting records provided, resulting in the financial statements receiving an unqualified audit opinion.

## **Expenditure**

13. Money owed by the municipal entity was not always paid within 30 days, as required by section 99(2)(b) of the MFMA.
14. Reasonable steps were not taken to prevent irregular as well as fruitless and wasteful expenditure, as required by section 95(d) of the MFMA.

## **Audit committee**

15. The audit committee did not advise the board of directors and the accounting officer on matters relating to internal financial control and internal audits, risk management and accounting policies, as required by section 166(2)(a) of the MFMA.
16. The audit committee did not advise the board of directors on matters relating to compliance with legislation, as required by section 166(2)(a)(vii) of the MFMA.
17. The audit committee did not review the financial statements to provide the board with an authoritative and credible view of the financial position of the entity, its efficiency and effectiveness as well as its overall level of compliance with legislation, as required by section 166(2)(b) of the MFMA.
18. The audit committee did not respond to the council on the issues raised in the audit reports of the auditor-general, as required by section 166(2)(c) of the MFMA.

## **Internal audit**

19. An internal audit unit was not established, as required by section 165(1) of the MFMA.

## **Human resource management**

20. The competencies of the financial manager and chief executive officer were not assessed in a timely manner to identify and address gaps in competency levels, as required by municipal regulation on minimum competency levels 13.

## **Consequence management**

21. The board of directors did not investigate all instances of irregular as well as fruitless and wasteful expenditure to determine if any person was liable for the expenditure, as required by section 102(1) of the MFMA.

## **Internal control**

22. I considered internal control relevant to my audit of the financial statements and compliance with legislation. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on compliance with legislation included in this report.

## **Leadership**

23. Leadership did not implement strict consequence management for poor performance and transgressions, therefore setting a tone of tolerance for inadequate financial reporting.

24. Policies and procedures put in place by management were not sufficient to detect non-compliance with laws and regulations, as evidenced by the findings stated under the compliance with legislation section above.

## **Financial and performance management**

25. The financial statements were not adequately reviewed for validity, accuracy and completeness prior to submission for audit purposes, resulting in material misstatements being identified during the audit. These misstatements were subsequently corrected.

## **Governance**

26. The municipal entity did not establish an internal audit unit. In the absence of a functioning internal audit unit, the audit committee was unable to provide the required level of assurance.

*Auditor General*

East London

27 November 2015



*Auditing to build public confidence*